

Legal newsletter for technology, life sciences
and intellectual property sectors

lavery
LAW ▶ BUSINESS

QUEBEC TAX HOLIDAYS FOR FOREIGN RESEARCHERS AND PROFESSORS

DIANA DARILUS

ddarilus@lavery.ca

The Quebec tax system offers a range of tax holidays to attract qualified foreign workers to Quebec: the deduction for foreign researchers, deduction for foreign experts, deduction for foreign specialists, deduction for foreign professors, etc. Although these tax incentives may appear tempting, the fact remains that one must make sure to meet the numerous established criteria in order to be able to benefit from them.

As regards the tax holiday for a foreign researcher, it covers a researcher who takes up a position as an employee of an employer who undertakes, or causes to be undertaken on his behalf, in Quebec, scientific research and experimental development. The foreign researcher must work exclusively or almost exclusively (that is to say close to 90% of the paid working time) for that employer and he must perform duties that consist exclusively or almost exclusively in carrying on scientific research and experimental development. In addition, the foreign researcher must not reside in Canada prior to the entering into of the employment contract or prior to taking up his position as an employee. The employer of a foreign researcher must also obtain a certificate from the Minister of Economic Development, Innovation and Export Trade attesting that such researcher specializes in the field of pure or applied science or in a related field and that he has, in that respect, a Master's degree recognized

by a Quebec university or equivalent knowledge.

As regards the tax holiday for a foreign professor, it is available for a foreign professor hired as an employee by a Quebec university, for whom he must work exclusively or almost exclusively. Just like in the case of a foreign researcher, the foreign professor must not reside in Canada immediately prior to the entering into of the employment contract or immediately prior to taking up his position as an employee. The Quebec university must obtain, before the specified deadline, for the tax year concerned, a certificate delivered by the Minister of Education, Recreation and Sports, certifying that such professor specializes in one of the fields of science and engineering, finance, health or new information and communications technologies and that he has, in that respect, a doctoral degree. Moreover, such certificate must attest that the foreign professor's duties with his employer consist exclusively or almost exclusively in acting as a professor in one of the foregoing fields.

In both cases, as regards employment contracts entered into by a foreign researcher or foreign professor after March 30, 2004, the tax holiday, which generally corresponds to a percentage of the paid remuneration, is offered over a continuous period of five years at the most and the rate of the tax holiday varies according to the year within such period as follows:

SUMMARY

QUEBEC TAX HOLIDAYS FOR FOREIGN RESEARCHERS AND PROFESSORS

THE AMAZON.COM JUDGMENT:
THE PATENTABILITY OF THE ONE-CLICK METHOD

AT A GLANCE

DISTINGUISH YOURSELF!

ONLINE DOWNLOADING IN THE SIGHTS OF AMERICAN JUSTICE

- ▶ 100% for the first two years;
- ▶ 75% for the third year;
- ▶ 50% for the fourth year; and
- ▶ 25% for the fifth year.

In addition, it is the employer who must make a written request with respect to the employee for the required attestation or certificate within the time periods provided for by law, that is to say before March 1 of the year following the taxation year. Since these tax holidays affect the amounts of the deductions at source that the employer is required to withhold from his employee's salary, it is in the employer's interest to make sure that the conditions for benefitting from these tax holidays are respected and to follow up on the applicable rates for these holidays.

For example, if a foreign researcher who was hired in 2002, while the tax holiday rate for a foreign researcher was a fixed rate of 100% for a period of five years, is

subsequently hired as a foreign professor after March 30, 2004, in accordance with the applicable new rules and subject to all of the conditions being met, and he wishes to henceforth have the benefit of the tax holiday for foreign professors within the limits provided for by law, then he must use the diminishing rates that vary according to the years.

In more complex situations, it is recommended that you obtain assistance from your tax advisor in order to comply with all the legal requirements relating to these various Quebec tax holidays, which, incidentally, are not available with respect to federal taxes.

AT A GLANCE

MAYO COLLABORATIVE SERVICES V. PROMETHEUS LABORATORIES, INC.

On March 20, 2012, the United States Supreme Court unanimously held that two patented diagnostic processes, of which Prometheus was the sole and exclusive licensee, were not patent eligible because they set forth laws of nature without additional features that provided practical assurance that such process was more than a drafting effort designed to monopolize the law of nature itself. The patent claims, at issue, aimed at establishing the level of metabolites in the bloodstream in order to optimize drug dosage.

This decision constitutes a paradigm shift which liberalizes, in the United States, the field of personalized medicine. Its consequences, both on biotechnological companies that had been counting on similar processes as well as academia could be numerous and far-reaching.

ASSOCIATION FOR MOLECULAR PATHOLOGY, ET AL. V. U.S. PATENT AND TRADEMARK OFFICE, ET AL

As a result, on March 26, the Supreme Court ordered the Federal Circuit Court to reconsider its ruling in the *Myriad* case (discussed in our December 2011 issue) in light of the principles exposed in the *Prometheus* decision.

THE AMAZON.COM JUDGMENT: THE PATENTABILITY OF THE ONE-CLICK METHOD

MARIE-EVE CLAVET

meclavet@lavery.ca

On November 24, 2011, the Federal Court of Appeal rendered its judgment in the case of *Canada (A.G.) v. Amazon.com, Inc.* (2011 FCA 328) requiring the Commissioner of Patents to re-examine the patent application presented by Amazon.com in 1998, in a manner consistent with the Court's reasons. Instead of appealing that judgment, the Commissioner chose to deliver the patent claimed on January 17, 2012.

At first, the Commissioner had refused to grant a patent to Amazon.com for its one-click method of Internet shopping because the claimed invention was not an "art" or a "process" within the meaning of the *Patent Act*.

In 2010, the Federal Court had quashed that decision, judging that Amazon.com's patent application met the requirements of the law and therefore should have been granted by the Commissioner. That decision had given rise to new examination directives being given to the examiners at the Canadian Intellectual Property Office (CIPO).

In addition to opening the door to the patentability of innovations in the computer science sector as well as inventive and new commercial practices, as the United States Supreme Court had done in the *Bilski* case, the judgment teaches us that:

- ▶ The identification of the "actual invention" by the Commissioner must be based on a purposive construction of the claims.
- ▶ The Federal Court of Appeal showed itself to be quite critical with respect to the criteria relating to the notion of an "art" used by the Commissioner to reject Amazon.com's patent application, by ruling that:
 1. The criterion of scientific or technological in nature should not be used as a stand-alone basis for distinguishing subject matter that is patentable from subject matter that is not;
 2. The Canadian case law has never established conclusively that a business method cannot be patentable subject matter;
 3. As for the physicality requirement, it is agreed that patentable subject matter must be tangible or manifest a discernible effect or change. However, a simple "practical application" is not sufficient to give a claimed invention "physical character" so that it is patentable subject matter.
- ▶ The fact that a patent is granted for an invention in one or more other countries cannot determine whether it constitutes patentable subject matter in Canada.

DISTINGUISH YOURSELF!

SIMON LEMAY

slemay@lavery.ca

INTRODUCTION

The judgment rendered in the case of **BOULANGERIE ST-MÉTHODE INC. v. BOULANGERIE CANADA BREAD LTÉE, 2012 QCCS 83**¹, rendered on January 19, 2012, is a good illustration of the importance of creating new marks that really differ from the marks already being used in the market.

The facts of this story are simple. Two direct competitors marketed fresh bread through the same commercial channels and the same points of sale, each using a circular "button" that included the same text [*Translation*] "FAT SUGAR ADDED" but with a diagonal line running through such text to indicate that in fact no fat or sugar had been added. The competitors' respective buttons had a similar visual appearance. The plaintiff had been using such a button for many years, while the defendant had just started using its button when the plaintiff sent it a formal notice demanding that it stop using it.

THE PROCEEDINGS

In its motion to institute proceedings, the plaintiff requested that a permanent injunction be issued to stop the defendant using its above-mentioned button.

For its part, the defendant Canada Bread declared that practically anything can be copied in our world of free competition (paragraph 40 of the judgment). In addition to seeking the dismissal of the request for a permanent injunction, Canada Bread asked the Court to award it \$35,000 in damages and, basing itself on article 54.1 of Quebec's *Code of Civil Procedure*, it also requested that the plaintiff be ordered to reimburse it for its extrajudicial fees and its expenses for expertise.

In paragraph 47 of the judgment, the Court stated:

[Translation] "In this regard, the extrajudicial fees claimed, incurred on a lawyer-client basis, as well as the disbursements for the work done between June 14 and November

24, 2011, amount to, according to the invoices filed by the defendant's lawyers, nothing less than \$878,545.32."

In addition, the defendant claimed expenses for expertise with respect to surveys that totalled more than \$96,000 (paragraph 49 of the judgment).

THE LAW

The "button" that had been used by the defendant for several years was not the subject of a Canadian trade-mark registration certificate. The plaintiff's recourse was therefore based mainly on the "passing-off" concept. This concept is codified in section 7 of the *Trade-marks Act* and, although it is inspired to a large extent by the common law, in Quebec it is analyzed in light of the general principles of civil liability as provided for in article 1457 of the *Civil Code of Québec* (paragraph 53 of the judgment). The Court stated that the three necessary elements of a passing-off action are: 1- the existence of a customer base (goodwill); 2- deception of the public by means of a misleading representation; and 3- actual or potential damages for the plaintiff.

Before analyzing each of these three points in detail, the Court made the following comments in paragraphs 63 and 64 of its judgment:

[Translation]

"[63] The Court understands from the rules that follow from both the law and decisions of the courts that, although freedom to carry on business remains one of the foundations of our law, systematic copying of a distinctive mark of a business cannot be tolerated when it may lead to confusion among consumers and potential damages for the business copied.

[64] In the *Kisber* case, Justice Rousseau-Houle established the limits on freedom to carry on business as follows:

If competition is the weapon of business, the efforts made by a competitor to take away the position occupied by his

adversary and attract his clientele must respect the rules of honesty and good faith that are the basis of commercial transactions. When a competitor tries to appropriate, by means of misrepresentation, his adversary's advantage of having a business or product that has a well-established reputation, he is engaging in unfair competition."

The Court then made a lengthy analysis of each of these criteria and arrived at the conclusion that they were well and truly met in this case.

The fact that the plaintiff succeeded in putting into evidence facts showing that the defendant had asked its marketing firm to create a button similar to that of the plaintiff for the purposes of stealing market share from it and taking on its biggest sellers (paragraphs 18 and 19 of the judgment) probably had an impact.

To sum up, the Court concluded that Boulangerie St-Méthode well and truly had a customer base linked to the button described above, that the use by Canada Bread of a button that was for all practical purposes identical to it was likely to create confusion (or to deceive the public), and that there was an ensuing risk of damages being caused to the plaintiff.

Even though it was not necessary to do so, the plaintiff succeeded in proving that the defendant intended to create confusion among the public. Showing this, in particular as evidenced by emails between the defendant and its marketing firm, quoted in paragraphs 129 to 131 of the judgment, greatly influenced the Court. In other words, the defendant did not attempt by the creation of its new mark to distinguish itself from its competitors but well and truly made a deliberate effort to create a mark similar to that of the plaintiff.

¹The judgment has been appealed.

THE COUNTERCLAIM

In this case, the defendant made a counterclaim based on article 54.1 of the *Code of Civil Procedure* which makes it possible to recover extrajudicial fees when a claim or pleading is clearly unfounded, frivolous or dilatory or when conduct is vexatious or quarrelsome. The defendant claimed damages in the amount of \$35,000 as well as extrajudicial fees and disbursements

totalling approximately one million dollars (paragraph 205 of the judgment). The Court came to the conclusion that it was rather the counterclaim that was abusive and, of course, did not grant the compensation sought in the counterclaim.

CONCLUSIONS

This judgment serves as a dramatic reminder about the importance of creating the most

distinctive marks possible. Indeed, the use of a mark that is not distinguishing enough from those of competitors, even if it is made up of different descriptive elements, may nevertheless lead a court to conclude that there is a likelihood of confusion and unpleasant consequences. At best, the use of a mark of this nature puts its user in an uncertain and uncomfortable position.

ONLINE DOWNLOADING IN THE SIGHTS OF AMERICAN JUSTICE

MARIE-HÉLÈNE GIROUX

mhgiroux@lavery.ca

On January 19, 2012, the United States Department of Justice ordered the closing down of the *Megaupload.com* Internet site, as well as several other affiliated sites (18 domain names in total), one of the largest file sharing network systems. The network was operated by an entity based in Hong-Kong. According to the American authorities, the network's leaders illegally generated 175 million dollars of profit over a period of five years. The network is thought to have derived its revenues from two main sources, that is through its users' subscriptions and advertising on its sites. Also, the network's activities caused more than 500 million dollars of losses to the entertainment industry by making it possible to download works protected by copyright, more particularly films, music,

television shows, electronic books and business and entertainment software. Still according to the United States Department of Justice, the *Megaupload.com* site, in only a few years, pulled itself up to rank among the 100 most visited websites in the world, generating by itself traffic equal to 4% of worldwide Internet traffic. The network's defence lawyers stated, however, that *Megaupload's* only mission was to offer storage of online content. Charges of racketeering, conspiracy and copyright infringement were laid against seven individuals and two companies with regard to this case.

How did the American legal system get 18 domain names deactivated, although they were operated by a foreign entity using several servers across the world? Management of the virtual domain rests mainly with the *Internet Corporation for*

Assigned Names and Numbers ("ICANN"), a private non-profit corporation, based in California, that is responsible for the Internet names and addresses systems, including the domain names system (DNS). As the organization in charge of allocating .com, domain names, ICANN delegated the management of .com domain names (which represent approximately 95 million Internet sites) to the corporation *VeriSign*. Thus, in the *Megaupload* matter, instead of attacking the various servers scattered all over the world, the American legal system enjoined *VeriSign* to intervene directly with respect to the 18 domain names that were the subject of the intervention. Therefore, servers are still operational, but it is from now on impossible to get to them, for lack of a valid address. It remains to be seen whether the closing down of this network will have a deterrent effect on illegal downloading.

LAVERY AN OVERVIEW

- ▶ In business since 1913
- ▶ 175 lawyers
- ▶ Most important law firm in Québec
- ▶ World Services Group (WSG) a national and international network

CONTACTS

MONTREAL - 1 Place Ville Marie
514 871-1522

QUEBEC CITY - 925 Grande Allée Ouest
418 688-5000

OTTAWA - 360 Albert Street
613 594-4936

Pour recevoir notre bulletin en français, veuillez envoyer un courriel à info@lavery.ca.

All rights of reproduction reserved. This bulletin provides our clients with general comments on recent legal developments. The texts are not legal opinions. Readers should not act solely on the information contained herein.

▶ lavery.ca